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State Dept. review completed

THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D. C. 20505

DDI #2428-82
24 March 1982

National Intelligence Officers

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central IntelligenceVIA : Richard Lehman
Acting Chairman, National Intelligence CouncilFROM : 25X1
Acting National Intelligence Officer for USSR-EE

SUBJECT : NSC Meeting - Thursday, 25 March, 1:30 - 2:30 p.m.

1. The announced purpose of the meeting is a debriefing of the Buckley high-level meeting to Europe. The hidden agenda item is what to do in the wake of the mission.

2. As you will recall, the presidentially-directed purpose of the mission was to "address restricting medium- and long-term government and government-guaranteed export credits to the Soviet Union and convening a conference of these countries and others to consider the establishment of a standing mechanism of the management of such credit restrictions in the future." The mission was also to seek a pause in the granting of government-guaranteed credits pending the convening of the conference (See Attachment 1 for NSC Directive).

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SUBJECT: NSC Meeting - Thursday, 25 March, 1:30 - 2:30 p.m.

Attachments:

1. NSC Directive
2. High-level Mission Meeting in Bonn
3. High-level Mission Meeting with NATO Council
4. Message from SECSTATE to French, FRG, UK, and
Italian Foreign Ministers
5. FRG Reaction to USG Position
6. State Assessment and Guidance on West European
Gas Purchases from the USSR.

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MEMORANDUM FOR THE VICE PRESIDENT

THE SECRETARY OF STATE
THE SECRETARY OF THE TREASURY
THE SECRETARY OF DEFENSE
THE SECRETARY OF COMMERCE
THE DIRECTOR OF CENTRAL INTELLIGENCE
THE UNITED STATES REPRESENTATIVE TO THE
UNITED NATIONS
THE DIRECTOR OF OFFICE MANAGEMENT AND BUDGET
THE UNITED STATES TRADE REPRESENTATIVE
THE CHAIRMAN, JOINT CHIEFS OF STAFF

SUBJECT: High Level Mission to Europe

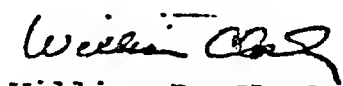
The President has determined to defer his decision on applicability of the December 30, 1981, sanctions involving the embargo of oil and gas equipment exports to the Soviet Union pending return of a Mission to Europe headed by Under Secretary of State James Buckley to consult with representatives of the Governments of the United Kingdom, France, Italy and the Federal Republic of Germany.

The consultations will address restricting medium - and long-term government and government guaranteed export credits to the Soviet Union and convening a conference of these countries and others to consider the establishment of a standing mechanism for the management of such credit restrictions in the future. Agreement to convene a conference will be subject to concurrence by the governments involved that no new government or government-guaranteed medium - or long-term credit commitments will be made to the Soviet Union in the interim.

In its discussions with European leaders, the Mission should also encourage them to move ahead with further restrictions on non-essential imports from the Soviet Union. The Mission should also encourage the Allied Governments to join with us in an effort to limit European energy dependence on the Soviet Union. However, these latter points should be subordinated to the key objective of significant restraints on credits to the Soviet Union.

In addition to Under Secretary Buckley, the Mission will include representatives from the Departments of Treasury, Defense, Commerce and the National Security Council staff.

FOR THE PRESIDENT:


William P. ClarkCONFIDENTIAL

Review on 1 March 1982



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E.O. 12065: RDS-1 3/16/92 (BUCKLEY, JAMES L.)
TAGS: EFIN, EEWT, UR
SUBJECT: INTERAGENCY MISSION ON EAST-WEST ECONOMIC
- RELATIONS: REPORT ON BONN CONSULTATIONS

1. (SECRET - ENTIRE TEXT.)

2. SUMMARY: INTERAGENCY MISSION'S TALKS IN BONN WITH
FRG COUNTERPARTS HEADED BY FOREIGN OFFICE STATE SECRETARY
LAUTENSCHLAGER AND ECONOMIC MINISTRY STATE SECRETARY
VON WUERZEN FEATURED LENGTHY AND INCONCLUSIVE TALKS ON

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WHETHER HERMES CREDIT GUARANTEE SYSTEM REPRESENTS ELEMENT OF STATE SUBSIDIZATION OF CREDITS. GERMANS INSISTED THAT RESTRAINTS ON FUTURE EXTENSION OF THESE GUARANTEES WOULD RESULT IN DECLINE IN FRG TRADE WITH THE SOVIET UNION. AS EXPECTED, GERMANS STRESSED NEED FOR "EQUITY" AND "BURDEN SHARING" IN ANY RESTRAINT REGIME, CLAIMING THAT THEY WERE ALREADY DISADVANTAGED BY CREDIT SUBSIDIES OF OTHER COUNTRIES. ALTHOUGH GERMANS RESISTED GIVING ANY COMMITMENT BEYOND AGREEMENT TO PROVIDE FURTHER INFORMATION ON THEIR CREDIT SYSTEM, GERMANS SHOULD BE UNDER NO ILLUSIONS THAT RESTRAINTS ON HERMES OPERATIONS WILL BE ESSENTIAL IF U.S. PROPOSALS ARE TO SUCCEED. GERMANS ALSO REVEALED MISUNDERSTANDING REGARDING NATURE OF U.S. POSITION ON "NO UNDERCUTTING." STATING THAT THEY ANTICIPATED U.S. WOULD NOT PUT RESTRAINT ON CONTRACTS IN BEING, THEY ASKED THAT THE U.S. AGAIN CONSIDER ALLOWING EXISTING CONTRACTS (AEG KANIS) TO BE FULFILLED BY APPROVING EXPORT LICENSE REQUESTS. REPORT ON GROUP MEETING WITH FOREIGN MINISTER GENSCHER SEPTEL. END SUMMARY.

3. AFTER INITIAL WELCOME BY LAUTENSCHLAGER, UNDER SECRETARY BUCKLEY MADE INITIAL U.S. PRESENTATION IN WHICH HE STRESSED:

- A. WE ARE SEEKING SIGNIFICANT RESTRICTIONS IN OFFICIAL CREDITS AND GUARANTEES TO THE SOVIET UNION.
- B. THIS IS NOT PART OF CONFRONTATIONAL STRATEGY BUT RATHER REFLECTS THE PRESIDENT'S STRONGLY HELD VIEW THAT WESTERN SUBSIDIES OF SOVIET ECONOMIC DEVELOPMENT ARE FUNDAMENTALLY WRONG AND THAT ECONOMIC COMPONENT OF EAST-WEST RELATIONSHIP MUST BE BROUGHT INTO A COHERENT WESTERN STRATEGY.
- C. EVENTS LAST FRIDAY IN MADRID SYMBOLIZED DISAPPOINTMENT OF WESTERN HOPES REGARDING SOVIET BEHAVIOR.
- D. FOR ECONOMIC, POLITICAL AND STRATEGIC REASONS, FLOW OF SUBSIDIZED CREDIT TO THE SOVIET UNION MUST BE CURBED.

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- E. WE REALIZE THAT THIS MUST BE DONE ON MULTI-LATERAL BASIS, AND MUST INCLUDE JAPAN, CANADA AND OTHER KEY COUNTRIES.

- F. WE SEEK AGREEMENT ON A MECHANISM TO MONITOR CREDITS, A TEMPORARY PAUSE IN FURTHER EXTENSIONS PENDING ESTABLISHMENT OF THIS MECHANISM AND GREATER EXCHANGE OF INFORMATION TO SET UP THE MECHANISM AND INSURE ITS GOOD OPERATION.

- G. MISSION WILL REPORT ON ITS TALKS TO THE PRESIDENT, WHO HAS DEFERRED A DECISION ON APPLICABILITY OF HIS DECEMBER 30 DECISION TO PENDING CONTRACTS.

4. UNDER SECRETARY IKLE THEN PRESENTED OBJECTIVES OF THE MISSION IN TERMS OF THE MILITARY STRATEGIC INTERESTS OF THE ALLIANCE, NOTING THAT RESTRAINT ON CREDITS WAS AN ESSENTIAL YET MISSING ELEMENT OF THE WESTERN STRATEGY. REVIEWING THE POST-WAR ERA, HE NOTED THAT EFFORTS DURING THE 60'S AND 70'S TO MODERATE SOVIET BEHAVIOR THROUGH GREATER TRADE AND ARMS CONTROL HAD FAILED; INSTEAD, WE HAD WITNESSED ENORMOUS SOVIET MILITARY BUILD UP. WITHOUT A MORE COMPREHENSIVE ALLIANCE STRATEGY, HE WARNED, THE ALLIANCE MIGHT NOT SURVIVE A PERIOD OF CRISIS WHICH LIES AHEAD. UNDER SECRETARY IKLE SAID THAT A COHERENT NATO STRATEGY SHOULD INCLUDE THREE ELEMENTS NAMELY:

- 1. DEFENSE BUILD-UP IN WHICH U.S. WAS TAKING THE LEAD.

- 2. AN APPROACH EXEMPLIFIED BY THE TWO-TRACK INF DECISION TO REINVIGORATE THE ARMS CONTROL EFFORT AND,

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- 3. A NEW APPROACH IN THE ECONOMIC AREA TO STOP TRANSFER OF RESOURCES TO THE SOVIET UNION. WITHOUT THIS LATTER ELEMENT, WE WILL BE UNABLE TO CLOSE THE GAP IN THE EAST-WEST MILITARY BALANCE. HE ARGUED THAT WESTERN SUBSIDIZATION OF TRADE WITH THE SOVIET UNION HAD MADE IT EASIER FOR THE SOVIET LEADERS TO CARRY OUT THEIR UNPRECEDENTED MILITARY BUILD-UP WHICH COULD BRING THE

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DEFENSE SHARE OF THE SOVIET GNP TO 15 PERCENT BY 1985. HE URGED THAT WESTERN COUNTRIES ALLOW MARKET FORCES TO OPERATE AND RESIST SOVIET PRESSURE FOR CREDITS. WE DO NOT SEEK ECONOMIC WARFARE, HE SAID, BUT ONLY AN EVEN-HANDED NON-SUBSIDIZED TRADE POLICY. IN CONCLUSION, UNDER SECRETARY IKLE DREW A COMPARISON BETWEEN WESTERN ASSISTANCE TO POLAND AND TURKEY. WHILE HE ACKNOWLEDGED SUBSTANTIAL FRG ASSISTANCE TO TURKEY HE SAID THAT ASSISTANCE IN RECENT YEARS TO POLAND HAD IN FACT BEEN TWICE AS GREAT AS THAT TO TURKEY.

5. UNDER SECRETARY OLMER POINTED OUT THAT U.S., THROUGH ACTION TAKEN BY THE PRESIDENT ON DECEMBER 29, 1981, HAS LOST PERHAPS 500 MILLION DOLLARS IN EXPORTS ANNUALLY. THIS HAS SUBSTANTIAL IMPACT ON JOB SITUATION IN U.S., BUT HE SAID THAT WE REGARD THIS AS PRICE WE MUST PAY FOR SECURITY. HE ACKNOWLEDGED THAT U.S. HAS HAD TRADE SURPLUS WITH SOVIETS IN RECENT YEARS, BUT HE SAID THIS WAS DUE TO SOVIET AGRICULTURAL FAILURE AND NOT OUR MARKET DEVELOPMENT. HE ALSO CALLED ATTENTION TO ONGOING U.S. EFFORTS TO ASSIST IN WESTERN EUROPEAN ENERGY INDEPENDENCE THROUGH FACILITATION OF GREATER COAL EXPORTS, THE CAPACITY FOR WHICH MIGHT REACH 250 MILLION METRIC TONS IN 1983.

6. ASSISTANT SECRETARY LELAND NOTED THAT THERE ARE DIFFERENCES BETWEEN U.S. AND EUROPEAN ASSESSMENTS OF EAST-WEST RELATIONSHIP BUT ADDED THAT A COMPROMISE HERE SHOULD BE POSSIBLE. HE EXPRESSED DISAPPOINTMENT WITH THE WAY IN WHICH EC DECISION ON IMPORT RESTRICTIONS AGAINST SOVIET UNION HAD BEEN IMPLEMENTED. THE CREDIT AREA, HE SAID, STRIKES US AS A PARTICULARLY IMPORTANT AREA AT THIS TIME. HE ACKNOWLEDGED THAT GERMANS HAD PROVIDED RELATIVELY LOWER DEGREE OF SUBSIDIZATION THAN OTHER EUROPEAN COUNTRIES BUT MAINTAINED THAT FACT OF GOVERNMENT INVOLVEMENT IN HERMES SYSTEM IS INDEED EQUIVALENT TO SUBSIDIZATION. HE POINTED OUT THAT MUCH HAS CHANGED IN LAST 2/3 YEARS, AS SOVIET CREDIT RATING HAS FALLEN, AND PRIVATE BANKS HAVE BECOME EXTREMELY RELUCTANT TO LEND ON ANY TERMS. LELAND POINTED OUT THAT U.S. WAS EFFECTIVELY OUT OF THE SOVIET MARKET FOR INDUSTRIAL GOODS AND THAT OUR POST-AFGHANISTAN GRAIN EMBARGO HAD COST US A SUBSTANTIAL SHARE OF THE GRAIN MARKET, TAKEN UP BY ARGENTINA AND CANADA. HE SUGGESTED THAT IT WOULD BE RELATIVELY EASY

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FOR THE GERMANS TO ADOPT POSTURE SIMILAR TO OURS, I.E. NO GOVERNMENT GUARANTEES; IT WOULD BE MORE DIFFICULT FOR OTHER ALLIES. WHILE END OF HERMES GUARANTEES COULD RESULT IN SOME TRADE LOSS, ACTUAL OUTCOME HARD TO PREDICT. HE ACKNOWLEDGED THAT WESTERN PRESSURE WOULD NEVER CHANGE SOVIET SYSTEM; HOWEVER, WE COULD MAKE CHOICES MORE DIFFICULT FOR SOVIET LEADERS. HE STRESSED THE NEED FOR BETTER INFORMATION EXCHANGE ON CREDITS/GUARANTEES, WHICH COULD WORK TO THE ADVANTAGE OF FRG. (LELAND GAVE VON WUERZEN COPY OF FORMAT WHICH COULD BE USED TO REPORT GUARANTEES.) IN CONCLUSION, LELAND SAID HE HOPED THAT U.S. WOULD NOT HEAR ABOUT HOW 1978 FRG-SOVIET TREATY PREVENTED ANY ACTION RESTRICTING HERMES ACTIVITIES IN USSR. (FOR WHATEVER REASON, GERMANS DID NOT RAISE THIS TREATY, IN CONTRAST TO THEIR POST-AFGHANISTAN PERFORMANCE.)

7. MR. BAILEY NOTED THAT PRESIDENT REAGAN HAD DEFERRED ANY DECISION ON APPLICATION OF DECEMBER 29 DECISIONS, ADDING THAT THE PRESIDENT WAS CONFIDENT THAT THE ALLIES WOULD BE ABLE TO WORK OUT AN AGREEMENT WHICH WOULD PRUDENTLY REVERSE WEST-TO-EAST CAPITAL FLOW. HE EXPRESSED HOPE THAT THERE WOULD BE NO MORE "1.2 BILLION MARK SURPRISES" WHILE EFFORT TO DEVELOP SUCH A SYSTEM PROCEEDS, AND OUTLINED CONSULTATIVE PROCESS MOVING THROUGH FURTHER BILATERAL MEETINGS TO A CONFERENCE, PERHAPS IN WASHINGTON, WHERE WE WOULD HOPE THAT FINAL AGREEMENT COULD BE REACHED.

8. LAUTENSCHLAGER NOTED BROAD RANGE OF TOPICS RAISED BY U.S. SIDE. HE CHARACTERIZED TODAY'S MEETING AS ONE IN A SERIES BETWEEN JANUARY 11 NAC FOREIGN MINISTERS MEETINGS AND JUNE SUMMITS, IN PARTICULAR VERSAILLES, WHERE PRESENCE OF JAPAN WOULD MAKE DISCUSSION OF EAST-WEST TRADE PROBLEMS APPROPRIATE. AS REGARDS CONSIDERATIONS MENTIONED BY DR. IKLE, GERMANS HAVE SINCE JANUARY 11 TAKEN STEPS AGAINST SOVIET UNION, INCLUDING REFUSAL TO NEGOTIATE TECHNOLOGY AND MARITIME AGREEMENTS AND CUT IN IMPORTS FROM THE USSR. LATTER WAS NOT EASY, HE SAID,

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AND ADVISED U.S. NOT TO BE SO DISAPPOINTED WITH OUTCOME SINCE EC UNITY WOULD IMPRESS SOVIETS MORE THAN A HIGHER FIGURE, HE ARGUED. CONTINUING, LAUTENSCHLAGER NOTED THAT U.S. NOT PROPOSING TRADE WAR WITH SOVIETS BUT WAS SEEKING END TO OFFICIAL SUBSIDIZATION OF CREDITS, WHICH HE CHARACTERIZED AS A WORTHWHILE GOAL. HE ALSO NOTED US-FRG AGREEMENT THAT NO WESTERN SANCTIONS WOULD CAUSE SOVIETS TO CHANGE COURSE; WE COULD MAKE THINGS MORE DIFFICULT FOR THEM, HE SAID, BUT NO MORE. LAUTENSCHLAGER STRESSED NEED FOR CONSENSUS OF ALL KEY COUNTRIES ON BOTH OBJECTIVES AND PROCEDURES, AND HE RAISED QUESTION OF U.S. GRAIN SALES, REJECTING BY IMPLICATION OUR CONTENTION THAT THESE ARE PURELY COMMERCIAL AND SHOULD HAVE NO IMPACT ON CREDIT RESTRAINTS ISSUE. DUE TO DIFFERENT TRADE STRUCTURES, ANY CUT BACK IN CREDIT WOULD HAVE VERY ADVERSE AFFECT ON FRG EXPORTS. HE RECALLED FAMILIAR GERMAN ARGUMENT THAT HERMES GUARANTEES DO NOT CONSTITUTE SUBSIDIZATION OF CREDIT FLOWS, BUT NOTED THAT U.S. DOES NOT ACCEPT THIS REASONING. HERMES, HE SAID, WAS A TOTALLY NON-DISCRIMINATORY SYSTEM, WITH NO SPECIAL BREAKS FOR SOVIETS. 9. LAUTENSCHLAGER ALSO RAISED FRG SUPPORT FOR RAISING USSR FROM CATEGORY II TO I IN OECD CONSENSUS, AND ASKED FOR GREATER U.S. SUPPORT. (LELAND SAID WE SHARED OBJECTIVE BUT REGARDED IT AS "TOO LITTLE, TOO SOON.") GERMANS CONTINUED TO BELIEVE, HE SAID, THAT OECD WOULD BE APPROPRIATE FORUM FOR MULTILATERAL WORK ON CREDIT RESTRAINT MECHANISM; HOWEVER, GERMANS UNDERSTAND U.S. "ANXIETIES" REGARDING NEUTRALS AND WOULD BE PREPARED TO WORK IN A DE FACTO, SMALLER FORUM ON MARGINS OF OECD. HE MADE REFERENCE TO EXPERIENCE OF ESTABLISHMENT OF IEA AS EXAMPLE OF WHAT GERMANS BELIEVE MAY BE POSSIBLE. IN CONCLUSION, LAUTENSCHLAGER AGREED WITH NEED FOR GREATER TRANSPARENCY ON CREDITS/GUARANTEES, MAINTAINED THAT U.S. EFFORTS TO REDUCE LEVEL OF HERMES GUARANTEES WAS AIMED, IN PRACTICE, AT FRG EXPORTS, AND STATED FRG COMMITMENT TO FULFILL SIGNED CONTRACTS. ON LATTER POINT, LAUTENSCHLAGER CLAIMED THAT GERMANS HAD ORIGINALLY UNDERSTOOD THAT U.S. WOULD ALLOW FULFILLMENT OF SIGNED CONTRACTS CAUGHT BY OUR DECEMBER 29 MEASURES ONCE THE MEANING OF "NO UNDER-CUTTING" WAS PROPERLY DEFINED. SINCE THEN, U.S. HAD CHANGED COURSE AND WAS NOW SETTING CONDITION OF AGREEMENT

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ON CREDITS/GUARANTEES. U.S. PARTICIPANTS STRONGLY DENIED THAT THERE HAD EVER BEEN U.S. PROPOSAL TO LINK AGREEMENT ON "NO UNDERCUTTING" WITH U.S. RELEASE OF ROTORS, FOR EXAMPLE. IN FACT, THEY POINTED OUT, FRG FULFILLMENT OF CONTRACTS COULD BE SEEN AS UNDERCUTTING OUR MEASURES. (THIS SAME EXCHANGE WAS REPEATED LATER IN MEETING.)

10. STATE SECRETARY VON WUERZEN SUPPORTED LAUTENSCHLAGER'S PRESENTATION, AND STRESSED AT SEVERAL POINTS THAT ANY DECREASE IN HERMES GUARANTEES WOULD LEAD TO FALL IN FRG EXPORTS. HE REJECTED U.S. CONTENTION THAT HERMES CONSTITUTED EITHER A SUBSIDY OR A TECHNIQUE USED BY THE STATE ARTIFICIALLY TO DIRECT CREDIT FLOWS TO THE USSR. HE EXPLAINED NECESSITY OF HERMES ARRANGEMENTS ON GROUNDS THAT NON-STATE-OWNED AND RELATIVELY UNDERCAPITALIZED GERMAN BANKING SYSTEM COULD NOT OTHERWISE PROVIDE NECESSARY GUARANTEES FOR GERMANY'S HEAVY VOLUME OF EXPORTS, VON WUERZEN MADE STRONG PLEA, ON BASIS OF "MAINTAINING UNITY," THAT U.S. TAKE INTO ACCOUNT UNIQUE GERMAN SITUATION, IN PARTICULAR STRUCTURE OF EXPORT AND PARTICIPATION OF MANY SMALL FIRMS THEREIN. IF GUARANTEES FALL, HE REPEATED, TRADE WILL ALSO DECLINE. ON ENERGY COOPERATION, VON WUERZEN STRESSED FRG'S DESIRE TO COOPERATE WITH U.S. BUT ARGUED THAT U.S. COAL EXPORTS ALONE COULD NOT ELIMINATE NEED FOR SOVIET GAS.

11. RESPONDING TO FRG PRESENTATIONS, UNDERSECRETARY BUCKLEY OBSERVED THAT REFERENCE TO JUNE SUMMITS DOES NOT SUGGEST SENSE OF URGENCY WHICH WE ATTACH TO PRINCIPAL ISSUE UNDER DISCUSSION; WE NEED TO DISCOVER NOW WHETHER THERE IS A WILL AMONG KEY ALLIES TO REACH NEW CONSENSUS ON EXPORT CREDITS/GUARANTEES TO SOVIET UNION. US FAVORS, HE SAID, IMPROVED MECHANISM LIKE CUCOM BECAUSE OF THE UNIQUENESS OF BOTH THE PROBLEM AND THE OBJECTIVES. WITH SUCH A SYSTEM, WE CAN HAVE TANGIBLE, THOUGH MARGINAL IMPACT ON THE SOVIET UNION WHICH WOULD BE OF REAL VALUE TO THE WEST. BUCKLEY OBSERVED THAT GERMANS HAD CITED ALL THE PROBLEMS WE MUST FACE IN REACHING AGREEMENT; WE ARE AWARE OF THESE OBSTACLES, BUT BELIEVE THEY CAN BE OVERCOME IF ALL INVOLVED COOPERATE. AN EQUITABLE ARRANGEMENT, IN WHICH NO PARTICIPANT SEES ITS INTERESTS SUFFERING IN RELATIVE TERMS, IS THE ONLY KIND WHICH WOULD WORK, HE ADDED, AND POINTED OUT THAT UNLESS GERMANS ARE PREPARED

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TO MAKE ADJUSTMENTS IN HERMES, THEY COULD NOT EXPECT UK AND FRANCE TO ELIMINATE ELEMENTS OF SUBSIDIZATION IN THEIR SYSTEMS. AS FAR AS THEORY OF HERMES IS CONCERNED, BUCKLEY ARGUED, FACT THAT GOVERNMENT STANDS BEHIND IT AS

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GUARANTOR INVOLVES ELEMENT OF SUBSIDY. WHY NOT REMOVE THIS STATE GUARANTEE, HE ASKED, AND LET MARKET DECIDE WHETHER A GIVEN CREDIT IS SECURE? HERMES HAS QUOTAS, HE POINTED OUT, FOR COUNTRIES IN POOR FINANCIAL STRAITS. WHY NOTE DO THIS IN CASE OF USSR, PARTICULARLY SINCE WE ALL AGREE THAT USSR IS DIFFERENT FROM OTHER COUNTRIES. VON WUERZEN ACKNOWLEDGED THAT USSR AS A COUNTRY AND TRADE WITH USSR WERE DIFFERENT, BUT HE REJECTED CONTENTION THAT THIS REQUIRED ADJUSTMENTS IN HERMES, WHICH HAD BEEN APPLIED WITHOUT CHANGE FOR 30 YEARS. TO DEMONSTRATE ALLEGEDLY WEAK FRG TRADING POSITION, VON WUERZEN CITED (AND REPEATED SEVERAL TIMES LATER IN CONVERSATION) FACT THAT GERMANS APPEAR LIKELY TO RECEIVE ONLY 2.5 BILLION MARKS IN PIPELINE ORDERS ALTHOUGH 10 BILLION HAD BEEN ANTICIPATED. HE CONCLUDED WITH ARGUMENT THAT SINCE LIMITS ON HERMES MEAN LIMITS ON TRADE, WE SHOULD DISCUSS LATTER SUBJECT.

12. IN REPLY, LELAND STRESSED NEED FOR EQUALLY SHARED BURDEN IN WHICH NO COUNTRY WOULD SUFFER IN RELATIVE SENSE. HE CHARACTERIZED GERMAN STATEMENT THAT FRG PREPARED GO TO MARKET RATES IN OECD YET RETAIN HERMES AS A BIT LIKE JAPANESE POSITION ON SALES OF U.S. CARS IN JAPAN. IF MARKET TO BE FOLLOWED, WHY NOT DISPENSE WITH HERMES, HE ASKED? AS FAR AS U.S. POSITION ON RECLASSIFICATION OF USSR IN OECD CONSENSUS, OUR ONLY PROBLEM WAS TO HAVE GENERAL RECLASSIFICATION WITHIN CONSENSUS SO THAT NEUTRALS WOULD GO ALONG. AS FAR AS FORUM FOR SEPARATED NEW CONSENSUS ON CREDITS/GUARANTEES TO THE USSR, LELAND ARGUED THAT OECD WOULD NOT WORK, DUE IN LARGE MEASURE TO ITS MEMBERSHIP. VON WUERZEN ACCEPTED THIS POINT AND SAID FRG PROPOSED TO WORK WITHIN A SMALLER CIRCLE ON MARGINS OF OECD. IN SOMEWHAT CONTRIDICTORY REMARK, HE SAID THAT IF U.S. WAS INTERESTED

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IN USE OF MARKET TO CUT AVAILABILITY OF CREDITS TO USSR, WE SHOULD BE PLEASED WITH WORKINGS OF EURO CURRENCY MARKETS, WHERE NO LENDING TO USSR IS NOW TAKING PLACE. THUS, HE SAID, CUTTING BACK ON HERMES IS NOT ONLY WAY TO PROCEED. HE ASKED THAT WE UNDERSTAND THAT HERMES IS TIME-HONORED SYSTEM AND GERMANS HAVE NO OTHER WAY OF DOING BUSINESS, AND CLAIMED THAT U.S. SALES TO USSR INCREASING. UNDERSECRETARY OLMER TOOK ISSUE WITH LATTER POINT, AND CITED IMPACT OF OUR DECEMBER 29 MEASURES ON U.S. EXPORTS.

13. BUCKLEY SAID IT WAS CLEAR THAT ISSUES RAISED BY VON WUERZEN WERE AT HEART OF MATTER, AND RESTATED THREE BASIC OBJECTIVES, I.E.: 1) GREATER TRANSPARENCY, ON WHICH THERE SEEMS TO BE NO DISAGREEMENT; 2) AGREEMENT ON CONCEPT THAT SOVIET UNION IS "DIFFERENT" IN TRADE TERMS AND DOES REQUIRE SPECIAL TREATMENT AS WE GIVE IT IN HIGH TECHNOLOGY FIELD; AND 3) PENDING AGREEMENT ON OUTSTANDING ISSUES, WITHIN BRIEF TIME SPAN, THAT WE HAVE A PAUSE IN NEW GUARANTEES SO THAT WE HAVE TIME TO COME TO GRIPS WITH PROBLEMS. LAUTENSCHLAGER SAID THIS WAS A "SORT OF MORATORIUM," TO WHICH BUCKLEY REPLIED THAT WE HAVE IN MIND A "STRETCHING OUT" AND DELAY OF DECISIONS. VON WUERZEN SAID HE COULD AGREE TO OBJECTIVES ONE AND TWO; OBJECTIVE THREE GAVE HIM PROBLEMS, BUT AGREED IT COULD BE DISCUSSED. HE OBJECTED AGAIN TO "MANIPULATION" OF HERMES, AND ADDED THAT HE KNEW THERE WOULD BE NEW APPLICATIONS PRESENTED SHORTLY. LAUTENSCHLAGER SAID, RE OBJECTIVE TWO, THAT MORE DISCUSSION OF MECHANISM THE U.S. PROPOSES, ITS PARTICIPANTS AND PROCEDURES, WAS NEEDED. HE RAISED AT THIS POINT PROBLEM OF COMPETENCE OF EC COMMISSION IN TRADE FIELD, ARGUING THAT WHILE THIS WAS NOT INSUPERABLE PROBLEM, IT WOULD HAVE TO BE ADDRESSED. LELAND OBSERVED THAT GROUP WOULD MEET WITH COMMISSION.

14. LOOKING AHEAD, LAUTENSCHLAGER SAID FRG SIDE WOULD INFORM INTERESTED MINISTERS OF U.S. VIEWS; THERE WOULD BE INTER-MINISTERIAL DISCUSSION MARCH 16, FOLLOWED BY CABINET MEETING MARCH 17. FRG WOULD DISCUSS ISSUES WITH UK AT MARCH 19-20 SUMMIT AND WITH OTHER EC-10 MEMBERS AT MARCH 22-23 FOREIGN MINISTERS' MEETING. GERMANS WANT TO

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BE HELPFUL, HE SAID. THEY UNDERSTAND IMPORTANCE OF MISSION; THEY WANT U.S. TO KNOW WHAT CAN AND CANNOT BE DONE, AND WHAT WILL TAKE TIME AND PATIENCE. HE STRESSED AGAIN GENSCHER'S GUIDING PRINCIPAL OF AVOIDING ANY BREACH IN WEST. HE IMPLIED THAT, IN INTEREST OF UNITY, U.S. SHOULD SHELVE SOME QUESTIONS WHICH WERE "TOO DIFFICULT." HE SUPPORTED VON WUERZEN'S CONTENTION THAT CURBING HERMES MEANS CURBING TRADE AND SUGGESTED THAT WE DISCUSS TRADE CURBS, WITH ALL SECTORS AND ALL COUNTRIES (I.E. U.S. GRAIN SALES) FAIR GAME. BUCKLEY DENIED THAT CUTTING TRADE WAS OUR OBJECTIVE; RATHER, WE SEEK RECOGNITION THAT CREDIT, IN ITS OWN RIGHT, IS A STRATEGIC COMMODITY WHICH WEST SHOULD CONTROL AS IT DOES HIGH TECHNOLOGY, SINCE SOVIETS CAN USE BOTH AGAINST US. OLMER NOTED

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EXTENSIVE SOVIET HARD-CURRENCY SUPPORT TO COUNTRIES SUCH AS CUBA, VIETNAM, ETC., WHICH IS MADE EASIER BY WESTERN CREDITS. IKLE SUGGESTED THAT IF SOVIETS CUT OIL DELIVERIES TO CASTRO, AS THEY HAVE DONE, IN ORDER TO SELL IT IN THE WEST, THIS COULD IMPEDE CASTRO ACTIVITIES IN ANGOLA, TO THE WEST'S BENEFIT. PERHAPS THEY WOULD BUY LESS GRAIN FROM U.S., HE ADDED, IF A REDUCTION IN WESTERN EUROPEAN CREDITS CUTS DOWN FOREIGN EXCHANGE AVAILABILITIES. LAUTENSCHLAGER SAID HE DOUBTED LATTER WOULD HAPPEN. LELAND SUGGESTED THAT SOVIETS WOULD CUT BACK FIRST ON GRAIN, THEN ON MACHINERY, AND ONLY LAST ON FOREIGN ADVENTURES, BUT WE WOULD FORCE THEM TO MAKE THE CHOICE. HE ALSO NOTED THAT EVENTUALLY, LARGE DEBTORS END UP "OWNING THE BANK," AND SAID WE WERE SEEKING TO HELP OUR ALLIES AVOID THIS SORT OF SITUATION WITH THE USSR. VON WUERZEN SAID GERMANS SAW TRADE GOING DOWN IN ANY CASE AND ASKED WHETHER GERMANS SHOULD ENCOURAGE BANKS TO CUT BACK EVEN MORE. LELAND NOTED THAT FRG HAD CLOSED HERMES WINDOW FOR ROMANIA DUE TO THAT COUNTRY'S WELL-KNOWN PROBLEMS; HOWEVER, IN CASE OF SOVIET UNION, REVERSE WAS HAPPENING, AS EVER GREATER SHARE OF FRG'S EXPORTS WERE HERMES GUARANTEED DESPITE FALL IN USSR'S CREDIT RATING. HE ASKED WHY THIS HAD HAPPENED. GERMANS DID NOT REPLY DIRECTLY, BUT VON WUERZEN OBSERVED THAT "FOR US TO CHANGE

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HERMES NOW WOULD BE A DISASTER; THERE IS AN EVER-GREATER DEMAND FOR HERMES." BAILEY OBSERVED THAT IF PRIVATE BANKS WERE OUT OF MARKET, EFFECT WAS THAT HERMES ALONE WOULD DETERMINE AMOUNT OF FINANCING AVAILABLE FOR EXPORTS TO USSR, AND LELAND TOLD GERMANS THAT UNLESS WE HAVE SOME MOVEMENT FROM THEM, WE CAN EXPECT NOTHING FROM BRITISH OR FRENCH. LAUTENSCHLAGER SUGGESTED THAT THE REVERSE WAS THE CASE, I.E. THAT GERMANS SHOULD WAIT FOR SOMETHING FROM BRITISH AND FRENCH, SINCE, AS LELAND HAD ADMITTED EARLIER, GERMANS WERE AMONG THE LEAST OF THE "SINNERS." LELAND SAID MOVES BY ALL WERE NEEDED AND THAT WE NEEDED TO KNOW WHAT PERCENTAGE OF FRG EXPORTS TO USSR WERE COVERED BY HERMES. (LELAND LEARNED SUBSEQUENTLY THAT APPROXIMATE FIGURES WERE ONE-THIRD FOR 1981 AND POSSIBLY AS MUCH AS 50 PERCENT IN 1982). AT CONCLUSION OF MORNING SESSION, VON WUERZEN OBSERVED THAT QUESTIONS OF EQUITY AND BURDEN SHARING WERE THE KEY AND EXTREMELY DIFFICULT. HE NOTED THAT U.S. HAD NOT BEEN SPECIFIC REGARDING HERMES, AND ASKED "WHAT DO YOU EXPECT OF US ON HERMES ? STAND STILL? CUT IT? KILL IT?" IKLE SUGGESTED THAT WE WOULD PREFER SUBSTITUTION OF PRIVATE INSURANCE SYSTEM IN WHICH MARKET WOULD DECIDE ON CREDITS.

15. FOLLOWING LUNCH AND MEETING WITH GENSCHER (SEPTEL), DELEGATIONS REASSEMBLED FOR BRIEF WRAP-UP SESSION. WHEREAS MORNING SESSION HAD ENDED WITH WHAT APPEARED TO BE HINTS OF MOVEMENT BY VON WUERZEN, GENSCHER WAS NOT FORTHCOMING. IN FINAL SESSION, LAUTENSCHLAGER AND VON WUERZEN APPEARED TO TAKE THEIR CUE FROM GENSCHER, AND WERE GENERALLY EVEN MORE RESERVED THAN IN THE MORNING.

16. PICKING UP ON POINTS FROM GENSCHER MEETING, IKLE NOTED THAT WE SHOULD LOOK AT TOTAL DEBT OF SOVIET BLOC, WHICH IS IN THE \$80 BILLION RANGE, IN CONSIDERING SOVIET UNION'S CREDIT-WORTHINESS. HE ALSO SUGGESTED THAT GERMANS MAKE CLEAR TO GENSCHER THAT U.S. WAS NOT RPT NOT SEEKING TO CUT TRADE, AS GENSCHER HAD NOT APPEARED AWARE OF THIS POINT. BUCKLEY REPEATED ARGUMENT REGARDING STRATEGIC NATURE OF CREDIT AND NEED FOR A MECHANISM WHICH COULD LOOK AT CREDIT TO USSR IN THIS LIGHT. HE SAID WE SOUGHT INDICATION FROM GERMANS THAT THEY SHARE

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THIS CONCEPT AND WILL WORK WITH US ON IT. THE MECHANISM WE ESTABLISH WOULD CHANGE WITH THE TIMES, HE SAID. IN MEANTIME, IT WAS IMPORTANT THAT THE BUREAUCRACY MAKE NO HASTE IN PROCESSING HERMES APPLICATIONS. WE WOULD LIKE TO HEAR FROM THE GERMANS ON OUR IDEAS, HE SAID, PERHAPS DURING THE WEEK OF MARCH 22 AFTER THEY HAVE CONSULTED WITH THEIR EC-10 FRIENDS. LAUTENSCHLAGER PROTESTED THAT SOME OF ISSUES RAISED WERE FAR REACHING; EVEN IF WE AGREE ON ANALYSIS, HE ADDED, MUCH TIME WILL BE NEEDED SINCE IMPACT ON TRADE IS INEVITABLE. HE SUGGESTED THAT FRG AGREEMENT TO TRANSPARENCY IN REPORTING ON GUARANTEES WAS A BIG STEP AHEAD. FURTHER DISCUSSIONS WOULD REVEAL, HE SAID, WHETHER FRG SHARED BASIC U.S. ASSESSMENT. HE SUGGESTED THAT THE FRG COULD GO ALONG UNDER TWO CONDITIONS: 1) UNITY OF WEST IS PRESERVED; AND 2) SYSTEM ADOPTED MUST MAKE SENSE FOR US, I.E. COST/BENEFIT RATIO MUST BE IN OUR FAVOR. HE RECALLED IN THIS CONNECTION SKEPTICISM WHICH GENSCHER HAD EXPRESSED. GERMANS WERE, IN ANY CASE, PREPARED TO CONSULT FURTHER, AND HE SAID HE HOPED U.S. DELEGATION LEFT BONN WITH FEELING THAT GERMANS PREPARED WORK WITH US.

17. BAILEY SAID HE HOPED GREATER TRANSPARENCY APPLIED TO EASTERN EUROPEAN COUNTRIES AS WELL AS USSR AND ASKED

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WHAT GENSCHER HAD MEANT WHEN HE REFERRED TO LACK OF IMPORTANCE OF FRG TRADE WITH USSR. ON LATTER POINT, LAUTENSCHLAGER SAID GENSCHER WAS CONCERNED THAT U.S. PRESS EXAGGERATED IMPORTANCE OF THIS TRADE FOR FRG. ON BAILEY'S FIRST POINT, GERMANS BALKED AND AVOIDED DIRECT REPLY, ARGUING THAT THEY HAD THOUGHT CONVERSATION WAS ON USSR ONLY. LELAND EXPLAINED THAT WE NEED OVERALL PICTURE IN ORDER TO MAKE CORRECT JUDGMENTS. THERE WAS GENERAL AGREEMENT THAT, AT LEAST AT OUTSET, FOCUS IN REPORTING WOULD BE ON USSR.

18. IKLE OBSERVED THAT GENSCHER HAD RAISED QUESTION OF IMPACT OF CREDITS TO USSR ON SOVIET MILITARY CAPABILITIES. HE UNDERTOOK TO GET INFORMATION ON THIS TO GERMANS WITHIN

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TWO WEEKS. HE ALSO CITED IMPORTANCE OF GENSCHER'S COMMENTS ON NEED TO HAVE AGREEMENT ON POLITICAL CONTEXT WITHIN WHICH ACTIONS TO RESTRICT CREDITS WOULD TAKE PLACE.

19. IN CONCLUSION, LAUTENSCHLAGER SAID GERMANS WOULD WORK WITH US, IF ONLY BECAUSE THEY WANT SOMETHING FROM US ON ITEMS OF INTEREST TO FRG (I.E. ROTORS FOR AEG-KANIS). QUESTIONS FORMED AN INSEPARABLE WHOLE, HE SAID, AND NO-ONE WAS INTERESTED IN DELAY.

20. COMMENT: LENGTHY AND OFTEN FRUSTRATING CONVERSATION WITH THE GERMANS WILL BE FAMILIAR IN SEVERAL IMPORTANT RESPECTS TO THOSE WHO PARTICIPATED IN SOMEWHAT SIMILAR EXERCISE IN POST-AFGHANISTAN PERIOD. COMPARISON OF THE TWO EXPERIENCES SUGGESTS, HOWEVER, THAT WE HAVE MOVED THE GERMANS A BIT IN OUR DIRECTION. MOREOVER, AS LAUTENSCHLAGER'S CONCLUDING REMARKS INDICATE, SITUATION HAS CHANGED SINCE MID-1980 (IN MORE RESPECTS THAN HE MENTIONED) AND OUTCOME OF DISCUSSION THIS TIME AROUND IS OPEN TO QUESTION. AS EXPECTED, ULTIMATE POSITIONS OF ALL FOUR KEY EUROPEAN ALLIES WILL EVOLVE AS PART OF EUROPEAN CONSENSUS-BUILDING PROCESS. STREATOR

END OF MESSAGE

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BRUSSELS ALSO FOR USEC; PARIS ALSO FOR USCECO

E.O. 12065: ROS 03/19/82 (LEOGAR, STEPHEN J.) OR-M
 TAGS: NATO, ECON, EFIN, EEWT, UR, WG
 SUBJECT: UNDER SECRETARY BUCKLEY'S INTER AGENCY MISSION:
 MARCH 19 SESSION OF NATO COUNCIL

1. (S -ENTIRE TEXT)

2. BEGIN SUMMARY: NATO PERMANENT REPRESENTATIVES AT
 COUNCIL SESSION MARCH 19 WERE IMPRESSED BY UNOER
 SECRETARY BUCKLEY'S PRESENTATION ON
 NEED FOR ALLIANCE CONCERN WITH STRATEGIC IMPLICATIONS
 OF SUBSIDIZED CREDITS AND GUARANTEES FOR THE SOVIET
 UNION AND US APPROACH TO THIS PROBLEM. ALLIES NOT
 PREVIOUSLY BRIEFED BILATERALLY WERE PLEASED WITH
 OPPORTUNITY TO RAISE QUESTIONS IN NATO FRAMEWORK.

3. SEVERAL ALLIES, CLEARLY UNOER INSTRUCTIONS, WELCOMED
 HIGHLY TARGETTED US APPROACH TO OFFICIAL CREDITS TO USSR
 AND ASSURANCES US DOES NOT SEEK TO WAGE ECONOMIC
 WARFARE NOR TO CUT OFF COMMERCIAL TRADE AND CREDIT.
 WHILE FRG REITERATED ITS DEFENSE OF GUARANTEES AS A
 KEY, AND NON-SUBSIDIZED ELEMENT IN ITS TRADE POLICY,
 AND FRENCH EXPRESSED GENERAL SKEPTICISM ON THE US
 APPROACH, OTHERS VOICED SUPPORT FOR VIEWING CREDITS TO
 SOVIETS IN A STRATEGIC CONTEXT, PURSUING EXCHANGE OF
 INFORMATION, AND COORDINATING WESTERN POLICIES ON CREDITS.
 THE UK PROPOSED USE OF NATO'S SENIOR POLITICAL COMMITTEE
 FOR MORE DETAILED CONSULTATIONS FOR THIS PURPOSE.
 ASSISTANT SECRETARY GENERAL OARIN NOTED THAT A NATO
 MECHANISM FOR EXCHANGE OF INFORMATION ON CREDITS TO
 WARSAW PACT COUNTRIES HAD BEEN ESTABLISHED IN 1960S:
 IT REFLECTED AN ESTABLISHED COUNCIL CONCERN WHICH COULD
 BE STRENGTHENED. IN RESPONSE TO UNOER SECRETARY'S
 COMMENTS ON NEED TO AVOID ENERGY DEPENDENCY ON SOVIETS,

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BELGIUM EXPRESSED INTEREST IN PURSUING A NATO STUDY OF ENERGY ALTERNATIVES FOR WESTERN EUROPE. UNDER SECRETARY STRESSED INTEGRAL LINK BETWEEN DIRECT SUBSIDIES AND GUARANTEES, WITH LATTER INCREASINGLY DISTORTING LENDING PATTERNS AS, IN FRG CASE, PRIVATE LENDERS PULL BACK FROM NEWLY PERCEIVED RISKS. WITH REGARD TO PROPOSED ELEVATION OF SOVIETS FROM CATEGORY II TO CATEGORY I IN THE OECD, BUCKLEY AND LELAND UNDERSCORED THAT UPGRADING OF SOVIET CREDIT TREATMENT WILL BE AN IMPORTANT STEP FORWARD BUT NOT FULLY ADEQUATE TO DEAL WITH SPECIAL CASE OF USSR.

4. OVERALL, FRANK TWO HOUR EXCHANGE Laid BASIS FOR FUTURE MULTILATERAL CONSULTATIONS ON THIS ISSUE IN THE ALLIANCE. END SUMMARY.

5. FOLLOWING WELCOMING REMARKS BY ASSISTANT SYG DA RIN AND INTRODUCTION OF THE INTER-AGENCY TEAM, UNDER SECRETARY BUCKLEY SET MISSION'S CONCERNS IN STRATEGIC/SECURITY CONTEXT OF NATO. HE OBSERVED THAT WHILE ECONOMIC CHARACTER OF SPECIFIC ISSUE HAD DICTATED MISSION'S STARTING ITS CONSULTATIONS WITH MAJOR TRADING PARTNERS AND CREDITORS OF THE USSR, THE NATO PERMANENT REPRESENTATIVES WERE BEST PLACED TO UNDERSTAND THE SECURITY IMPLICATIONS OF SUBSIDIZED CREDITS TO THE USSR IN CONTRIBUTING TO SOVIET MILITARY CAPACITY. IT WAS THIS SECURITY IMPACT WHICH NEEDED TO BE COMMUNICATED TO GOVERNMENTS.

6. NATO ITSELF WAS ORGANIZED AND ITS CITIZENS HEAVILY TAXED TO ASSURE A MILITARY CAPACITY TO OFFSET THAT OF THE SOVIETS. HOWEVER, THE LATTER'S SINGLE-MINDED MILITARY BUILD-UP HAD NOT ONLY STRENGTHENED RELATIVE SOVIET MILITARY STRENGTH OVER THE LAST DECADE, IT HAD ALSO INCREASED SOVIET SELF-CONFIDENCE AND DISPOSITION TO ADVENTURISM IN AREAS OF STRATEGIC IMPORTANCE TO NATO. AS WITH THE TRANSFER OF WESTERN TECHNOLOGY, TRANSFER OF WESTERN COMMERCIAL ASSETS TO THE SOVIETS, VIA CREDIT POLICY, HAD FUELED THIS PROCESS.

7. THE UNDER SECRETARY NOTED THAT THE PRESIDENT IS ESPECIALLY CONCERNED ABOUT THIS PHENOMENON AND HAD DIRECTED THE INTERAGENCY MISSION TO FOCUS ON OFFICIAL CREDITS AND GUARANTEES TO THE SOVIETS. THIS ISSUE REQUIRES ALLIED COOPERATION IN THE SAME WAY THAT THEY COORDINATE ON MILITARY QUESTIONS IN NATO AND ON TECHNOLOGY TRANSFER IN CDCOM.

8. NOTING THAT THERE HAD BEEN ERRONEOUS PRESS REPORTS,

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MR. BUCKLEY EMPHASIZED NOT ONLY THE SPECIFIC FOCUS OF THE MISSION BUT ALSO WHAT IT WAS NOT INTENDED TO DO.

-- THE USG HAS NO ILLUSIONS THAT CREDIT MEASURES WILL CHANGE SOVIET BEHAVIOR;

-- WE ARE NOT TRYING TO STOP EAST-WEST TRADE, BUT TO PUT IT ON A COMMERCIAL BASIS;

-- WE ARE NOT SEEKING TO PURSUE "ECONOMIC WARFARE" WITH THE SOVIETS. RATHER WE SUPPORT A "CEASE-FIRE" IN THE PRESENT ECONOMIC WARFARE AMONG WESTERN COUNTRIES, WHEREBY THEY UNDERCUT EACH OTHER IN SUBSIDIZING TRANSFERS TO THE SOVIETS AND THUS ENHANCE SOVIET CAPACITY.

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9. THE UNDER SECRETARY NOTED THAT THE TIME IS PARTICULARLY APPROPRIATE TO TAKE COLLECTIVE ACTION, AS WE OBSERVE THE PROBLEMS ARISING FROM FORCED FEEDING OF OEBT TO POLAND, ROMANIA, AND ELSEWHERE IN EASTERN EUROPE. THE SOVIETS THEMSELVES SHOW SERIOUS LIQUIDITY PROBLEMS WHICH PRIVATE BANKERS PERCEIVE. NOW IS THE TIME NOT FOR GOVERNMENTS TO SUBSTITUTE FOR PRIVATE LEADERS BUT RATHER, PRUDENTLY, TO REVERSE THE CREDIT FLOW AND REDUCE THE BALLOON OF SHAKY EASTERN CREDITS. IT DOES NOT SERVE THE WEST WHEN, FOR INSTANCE, ITALIAN TAX PAYERS HAVE TO PAY THE DIFFERENCE BETWEEN 7.8 PERCENT LENDING RATES TO THE SOVIETS AND 22 PERCENT BORROWING RATES FOR THE GOI.

10. BUCKLEY SAID USG WAS FULLY AWARE OF THE COMPLEXITIES AND PROBLEMS OF COORDINATING AMONG WESTERN COUNTRIES BUT HE WAS CONFIDENT THAT IF THERE IS A CONSENSUS TO ADD THIS CONCERN TO OTHER TRADITIONAL STRATEGIC CONCERNS, A MECHANISM CAN BE WORKED OUT. THERE WOULD HAVE TO BE ASSURANCE THAT NO SINGLE COUNTRY IS PUT AT A DIS-ADVANTAGE, AND THIS MEANS INTER ALIA THAT OTHERS -- SUCH AS JAPAN -- MUST ALSO PARTICIPATE.

11. THE UNDER SECRETARY BRIEFLY RAISED A SECOND THEME FALLING WITHIN NATO'S STRATEGIC CONCERNS: THE NEED TO AVOID EXCESSIVE DEPENDENCE ON SOVIET ENERGY SUPPLIES LEST THE SOVIETS GAIN LEVERAGE OVER WESTERN DECISION-MAKING. HE OBSERVED THAT US CONSIDERATION OF THESE ISSUES INDICATES THE PROBLEM OF ALTERNATIVE SOURCES IS "LESS PHYSICAL THAN POLITICAL." NO INTERNATIONAL ENTITY NOW CONCERNS ITSELF WITH THIS PROBLEM FROM AN OVERALL STRATEGIC POINT OF VIEW AND WITH A SENSE OF URGENCY. THE PROBLEMS OF ALTERNATIVES RELATE TO SPECIFIC NATIONAL POLICIES, FOR INSTANCE ON TRADE IN NATURAL GAS. MR. BUCKLEY SUGGESTED THAT NATO, WITH ITS SPECIAL CONCERN FOR SECURITY, MIGHT BE THE FORUM TO DEFINE AN APPROPRIATE MECHANISM TO STUDY AND COORDINATE EFFORTS ON SECURE ENERGY SUPPLIES FOR WESTERN EUROPE.

12. VAN USSEL (BELGIUM), NOTING HIS GOVERNMENT WOULD LATER IN THE DAY PARTICIPATE IN OTHER EXCHANGES WITH THE VISITORS BOTH IN THE EC AND AS EC PRESIDENT, POSED FOUR QUESTIONS ON THE USG CREDIT PROPOSALS:

(A) WAS THE USG LOOKING TO COLLECTIVE OR INDIVIDUAL MEASURES? (THE FORMER, HE NOTED, WOULD NECESSARILY INVOLVE NEUTRALS SUCH AS AUSTRIA AND NON-NATO COUNTRIES SUCH AS AUSTRALIA)

(B) WAS THE USG FOCUS STRICTLY ON THE USSR?

(C) TO WHAT EXTENT WERE THE US PROPOSALS QUANTIFIED? WOULD THEY REALLY HURT THE SOVIETS?

(D) WHAT WEIGHED MOST HEAVILY FOR THE US -- THE AMOUNT OF CREDITS OR THE SUBSIDY ELEMENT?

FINALLY, VAN USSEL EXPRESSED INTEREST IN NATO'S UNDERTAKING A STUDY ON ALTERNATIVE SUPPLIES OF ENERGY, LOOKING INTO MEASURES THAT MIGHT BE TAKEN IN THE WEST AND THE IMPLICATIONS OF THE SOVIETS OWN TWO-WAY TRADE IN ENERGY.

13. RESPONDING, MR. BUCKLEY SAID:

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(A) WHILE CONSULTATIONS NECESSARILY STARTED WITH THE MAJOR TRADING COUNTRIES, EFFECTIVE MEASURES MUST BE BASED UPON COLLECTIVE COOPERATION. THE MAJOR COUNTRIES BEING CONSULTED BILATERALLY, INCLUDING JAPAN, ACCOUNT FOR ROUGHLY 90 PERCENT OF THE CREDITS AND GUARANTEES. NEVERTHELESS, COOPERATION MUST INCLUDE AN EVEN BROADER GROUP. COCOM SHOWED THAT COOPERATION, EVEN OF NEUTRALS, WAS POSSIBLE.

(B) THE FOCUS IS SPECIFICALLY ON THE SOVIETS BECAUSE THE MILITARY THREAT RESIDES THERE. THE US BELIEVES VERY MUCH IN A POLICY OF DIFFERENTIATION IN EASTERN EUROPE.

(C) WHILE QUANTIFICATION OF THE IMPACT OF THE US PROPOSAL IS DIFFICULT, THE SOVIETS CLEARLY ARE FEELING A LIQUIDITY SQUEEZE; THEY ARE BEING FORCED TO HARD CHOICES. ONE RESULT MAY BE TO REDUCE PURCHASES OF US GRAIN TO FEED CATTLE AND UPGRADE THE SOVIET DIET. ANOTHER COULD BE TO CUT SUBSIDIES TO CLIENT STATES' ADVENTURISM. HE NOTED THAT COMPLETION OF INFORMATION EXCHANGE IS NEEDED TO FULLY COST OUT THE PRESENT SUBSIDIES, AND CITED FRENCH ESTIMATE OF \$400 MILLION AS THE ANNUAL COST TO WESTERN EUROPE OF THE SPREAD BETWEEN MARKET RATES AND LENDING RATES TO THE SOVIETS.

14. IN RESPECT TO ENERGY, THE UNDER SECRETARY NOTED THE COMING DECLINE IN SOVIET OIL CAPACITY AND THE BALANCE OF PAYMENTS BOOST WHICH WOULD COME FROM GAS EXPORTS. ANOTHER CONCERN ON GAS IS THE IMPACT OF SOVIET PREEMPTION OF EUROPEAN MARKETS WHICH, WITH SLOWER GROWTH IN CONSUMPTION, COULD EXCLUDE DEVELOPMENT OF NORTHERN NORWEGIAN GAS BEYOND THE YEAR 2000. LOOKING AT PIPELINE FINANCING, THE DIFFERENCE BETWEEN LENDING RATES TO THE SOVIETS OF 7.9 PERCENT AND BORROWING RATES ABOUT 14.5 PERCENT REFLECTS A SUBSIDY ELEMENT WHICH GOES TOWARD ENHANCING THE SOVIET ENERGY INFRASTRUCTURE, WITH IMPLICATIONS FOR SOVIET INDUSTRIAL CAPABILITY.

15. ASYG OR RIN NOTED THAT THE NATO COUNCIL IN THE EARLY 1960S GAVE THE ECONOMIC COMMITTEE A MANDATE FOR A REGULAR EXCHANGE OF INFORMATION AND A DATA BANK ON WESTERN CREDITS TO THE WARSAW PACT COUNTRIES. THIS COULD WELL BE REINVIGORATED. ASST SECRETARY LELAND SAID THIS COULD BE VERY VALUABLE, BOTH FACTUALLY AND IN HIGHLIGHTING THE POLITICAL/STRATEGIC CONTEXT OF THIS ECONOMIC ISSUE WHICH GOES BEYOND THE GENERAL CONTEXT OF CREDITS IN THE OECD. HE EMPHASIZED THE ILLOGIC OF A "WESTERN MARSHALL PLAN FOR THE EAST" VIA SUBSIDIZED CREDIT. TRADE AND CREDIT TO THE SOVIETS BELONG ON A COMMERCIAL BASIS. THIS MEANS DEALING WITH BOTH CREDIT SUBSIDIES AND THE AMOUNT OF CREDITS, WHERE THE LATTER ARE PREDICATED ON GUARANTEES.

16. VIBE (NORWAY) AGREED ON THE SIGNIFICANCE OF WESTERN CREDIT POLICIES AND A "STRONG REQUIREMENT TO HARMONIZE POLICIES TOWARD THE USSR." HE SAID NORWEGIAN TRADE WITH THE SOVIETS WAS VERY MODEST -- 0.75 PERCENT -- BUT, AS A NEIGHBOR OF THE USSR, NORWAY WAS GLAD THE US SHARED ITS VIEW THAT NORMAL TRADE RELATIONS SHOULD CONTINUE. BUREAU-SHARING ALSO WAS IMPORTANT. NORWAY, VIBE SAID, GRANTS CREDITS TO ALL ON OECD TERMS. IN SUM, NORWAY AGREED EAST-WEST TRADE SHOULD BE ON A COMMERCIAL BASIS. IT FAVORED COORDINATION OF WESTERN EUROPEAN AND NORTH AMERICAN CREDIT POLICIES TOWARD THE USSR AND A CONTINUING EXCHANGE OF INFORMATION ON SUCH CREDITS.

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17. PICKING UP ON VIBE'S COMMENT ABOUT BURDEN-SHARING, LELAND OBSERVED THAT NO WESTERN COUNTRY'S TRADE WITH THE SOVIET UNION IS VERY LARGE. FOR NO ONE IS IT OVER TWO PERCENT OF TOTAL. WHAT THE SOVIETS GET IS THE IMPORTANT THING: BURDENSARING IN THE SENSE OF TRADE VOLUME IS NOT A LARGE ISSUE.

18. DE HOOP SCHEFFER (NETHERLANDS) SAID THE HAGUE RECOGNIZED THE IMPORTANCE OF HARMONIZING CONDUCT. THE NETHERLANDS WILL SERIOUSLY STUDY THE US IDEAS, WHICH, IN DUTCH VIEW, CAN BEST BE PURSUED IN "THE APPROPRIATE FORA". DE HOOP SCHEFFER CONCLUDED BY ASKING WHETHER, SINCE THE US PROPOSALS WERE INDEED AIMED SOLELY AT THE USSR, THE US HAS

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CONSIDERED THE DANGER THAT EAST EUROPEAN COUNTRIES MIGHT CIRCUMVENT THE MEASURES BY CHANNELING WESTERN CREDITS TO THE USSR. BUCKLEY SAID THAT THIS WAS OF COURSE A POSSIBILITY WHICH NEEDED TO BE STUDIED WITH GREAT CARE. IT ALSO UNDERSCORED THE IMPORTANCE OF THE EXCHANGE OF INFORMATION PROPOSED BY THE US, NOT ONLY ON PUBLIC AND PRIVATE PERFORMANCE WITH RESPECT TO THE USSR, BUT ALSO WITH RESPECT TO THE EES.

19. HALSTEAD (CANADA) NOTED THAT THE PURPOSE OF THE INTER-AGENCY MISSION WAS RESTRICTED TO THE EXAMINATION OF THE ROLE OF OFFICIAL CREDITS WITH RESPECT TO THE USSR AND, IN THIS RESPECT, HE ASSUMED THE US WAS NOT OPPOSED TO ALL OFFICIAL CREDITS TO THE USSR, BUT ONLY TO CREDITS OFFERED BELOW MARKET RATES. HE WENT ON TO EXPRESS CANADIAN AGREEMENT THAT NOW WAS AN APPROPRIATE TIME TO REVIEW EXPORT CREDITS AND TO ATTEMPT TO HARMONIZE PRACTICES. OTTAWA HAS LONG FAVORED AN ATTEMPT TO REVISE SOVIET CREDIT RATES SO THAT MOSCOW'S -- AND ALSO THE OTHER EE'S -- CREDIT TERMS BETTER REFLECT MARKET REALITIES. GOC FAVORS INCREASING THE USSR RATING UNDER OECD CONSENSUS FROM CATEGORY II TO CATEGORY I IN CONTEXT OF A BROADER REVISION OF OECD CONSENSUS RATES; SUCH AN APPROACH IS AIMED AT ACHIEVING NNA SUPPORT. HALSTEAD THEN PROPOSED A SERIES OF QUESTIONS ABOUT US PROPOSALS.

20. BUCKLEY RESPONDED BY CONFIRMING THAT US PROPOSALS WERE AIMED ONLY AT NEW CREDITS, WHICH HE DEFINED AS ANY EXTENSION OF CREDITS FOR WHICH TODAY THERE IS NO FIRM COMMITMENT, I.E., NOT LEGALLY BINDING. HE CONFIRMED THAT THE US SUPPORTS THE EFFORT TO RECLASSIFY OECD CONSENSUS RATES AT THE MAY OECD MEETING, ADDING THAT THE US DOES NOT NECESSARILY BELIEVE SUCH A MOVE GOES FAR ENOUGH. THE USSR CANNOT BE CONSIDERED "JUST ANOTHER COUNTRY" BUCKLEY ADDED. TO QUESTION AS TO WHETHER US PROPOSALS WERE AIMED AT ALL OFFICIAL CREDITS OR ONLY THOSE BELOW MARKET RATES, BUCKLEY OBSERVED THAT WHEN A GOVERNMENT INTERVENES INTO THE CREDIT STRUCTURE THERE IS INHERENTLY THE DANGER THAT THIS INTERVENTION WILL DISTORT SUBTLE DECISIONS MADE IN THE MARKET PLACE. HE NOTED IN THIS REGARD THE FRG'S HERMES CREDIT SYSTEM, POINTING OUT THAT EVEN BONN ADMITTED THAT IF THERE WAS NO HERMES GUARANTEE THERE WOULD BE NO CREDITS IN THE CURRENT SITUATION.

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21. TO HALSTEAD'S QUERY WHETHER COMMODITIES, AS WELL AS CAPITAL GOODS, WOULD BE AFFECTED BY THE US PROPOSALS, BUCKLEY STRESSED US AIM OF EARNING OFFICIAL CREDITS OR CREDIT GUARANTEES FOR EITHER. THE CRITERION WAS NOT WHAT IS BEING SOLD, BUT THE "ARTIFICIAL" INFLOW OF CREDIT INTO THE USSR. AS FOR THE MECHANISM FOR IMPLEMENTING THE US PROPOSALS, BUCKLEY NOTED THAT THERE HAS TO BE CONSENSUS, WHICH MUST BE BUILT UP STAGE BY STAGE. HE NOTED IN THIS REGARD THE EXAMPLE OF COCOM, WHICH INCLUDES, BUT ALSO GOES BEYOND, ALLIED COOPERATION. AS FOR THE MECHANISM FOR MONITORING THE SYSTEM, IT WOULD HAVE TO BE BASED ON THE INFORMATION EXCHANGED, AND PEER PRESSURE OF CREDITOR STATES.

22. OLCAY (TURKEY) EXPRESSED APPRECIATION FOR US TEAM'S PRESENTATION AND NOTED THAT, INTER ALIA, IT BROUGHT HOME A POINT WHICH HAS ALWAYS STRUCK TURKEY AS AN ANOMALY, I.E., THAT IT IS EASIER TO OBTAIN CREDITS FROM THE WEST IF ONE IS FROM THE "WRONG CAMP". HE POINTED TO (PAST) WESTERN WILLINGNESS TO LEND, FOR EXAMPLE, TO POLAND WHEN THAT COUNTRY WAS ALREADY ON THE BRINK OF FINANCIAL DISASTER, AND CONTRASTED THAT STANCE WITH ATTITUDE OF WEST EUROPEAN ALLIES TODAY TOWARD TURKEY, ADDING THAT BANKERS "APPEAR TO BE TURNING MORALISTS". BUCKLEY NOTED THAT POINT OLCAY MADE WAS A MESSAGE INTER-AGENCY MISSION CARRIED WITH THEM AT EACH STOP IN THEIR TRIP.

23. IN RESPONSE TO WURTH'S (LUXEMBOURG) QUERY AS TO HOW THE US THOUGHT THE CREDIT COORDINATION PROCEDURE SHOULD EVOLVE, BUCKLEY REITERATED THAT MISSION WAS SEEKING CONSENSUS NOT ONLY WITH

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BRUSSELS ALSO FOR USEC; PARIS ALSO FOR USOECD

REGARD TO OBJECTIVES, BUT ALSO WITH RESPECT TO PROCEDURES. THE PROCEDURAL ISSUE WAS NATURALLY A COMPLEX ONE BECAUSE, WHILE THE OBJECTIVES WERE STRATEGIC, THE ARRANGEMENTS WOULD NECESSARILY AFFECT EXISTING DOMESTIC PROCEDURES. THE US BELIEVED WE SHOULD START WITH THE COUNTRIES WHICH HAVE THE PRINCIPAL ROLE WITH REGARD TO CREDITS TO THE USSR. THUS, THE US PROPOSED TO MOVE INITIALLY IN A SMALL GROUP TO ADDRESS THIS ISSUE. IN THE COURSE OF CONSULTATIONS, WE WOULD OF COURSE WELCOME ADVICE FROM OTHERS REGARDING THE BEST FORUM THROUGH WHICH THE OBJECTIVES MIGHT BE PURSUED, RECOGNIZING THAT THE SECURITY ISSUE WAS PARAMOUNT. IN ADDRESSING THIS QUESTION WE WOULD PROCEED ON AN AD HOC BASIS, ALTHOUGH BUCKLEY NOTED THAT JUNE SUMMITS COULD PROVIDE A NATURAL FORUM FOR PURSUING THE ISSUE.

24. BOECKER (FRG CHARGE) OBSERVED THAT THE US'S OBJECTIVE WAS NEITHER ECONOMIC WARFARE AGAINST THE USSR NOR CURTAILMENT OF EAST-WEST TRADE. NOTING THAT HERMES EXPORT TRADE GUARANTEES WERE PARTICULARLY IMPORTANT FOR THE FRG, BOECKER OPINED THAT IF THE USSR WERE BLOCKED ACCESS TO GOVERNMENT-BACKED GUARANTEES, IT WOULD STILL HAVE ACCESS TO PRIVATE MARKET SOURCES, SINCE THE USSR GENERALLY IS CONSIDERED A GOOD CREDIT RISK. MOREOVER, IF THE WEST SINGLE OUT THE USSR FOR DIFFERENTIAL TREATMENT UNDER A WORLD-WIDE SYSTEM, SUCH ACTION MIGHT BE CONSIDERED BY MOSCOW AS ECONOMIC WARFARE AND EXPLOITED AS SUCH THROUGH

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SOVIET PROPAGANDA. BOECKER CONCLUDED HIS COMMENTS BY ARGUING THAT THE HERMES SYSTEMS WAS NOT A SUBSIDY, BY DEFENDING FRG ENERGY DEALINGS WITH THE SOVIETS (ARGUING THAT CONTRACTS WITH THE USSR WOULD NOT CREATE TOO GREAT A DEPENDENCE), AND BY ASKING IF THE US HAD ANY MATERIAL DOCUMENTING THE IMPACT OF EAST-WEST TRADE ON THE CAPABILITY OF THE USSR TO INCREASE ITS MILITARY STRENGTH.

25. BUCKLEY RESPONDED TO BOECKER'S COMMENTS BY NOTING, WITH RESPECT TO SOVIET CREDIT-WORTHINESS, THAT, ACCORDING TO FRG OFFICIALS, IN 1980 70 PERCENT OF THE LONG-TERM CREDIT EXTENDED FOR FRG CAPITAL GOODS HAD BEEN WITHOUT OFFICIAL GUARANTEES. IN 1981, HOWEVER, THIS DROPPED TO 50 PERCENT, AND CURRENTLY NO GERMAN BANK WILL EXTEND LONG-TERM CREDIT TO THE USSR WITHOUT AN OFFICIAL GUARANTEE. AS TO SOVIET PROPAGANDA OVER "ECONOMIC WARFARE", BUCKLEY AGREED THAT MOSCOW PROBABLY WOULD MAKE SUCH CHARGES, BUT OUR POLICIES SHOULD NOT BE GUIDED BY SOVIET PROPAGANDA. THE SOVIETS WILL MAKE PROPAGANDA AGAINST THE WEST IN ANY EVENT. ON THE IMPACT OF CREDIT, BUCKLEY ALLUDED TO INTELLIGENCE REPORTS INDICATING THAT THE SOVIET UNION WAS BEING FORCED TO MAKE SOME HARD DECISIONS IN THE ALLOCATION OF RESOURCES. BUT LOGIC ITSELF SHOULD DEMONSTRATE THE VALIDITY OF THE RELATIONSHIP BETWEEN SUBSIDIZING THE USSR AND ITS ABILITY TO INCREASE ITS MILITARY STRENGTH. THE US IS UNDER NO ILLUSIONS WITH REGARD TO THE INTENSITY OF THE SOVIET DESIRE TO PURSUE ITS MAIN PURPOSE. BUT, AT THE SAME TIME, ONE HAS TO APPRECIATE THE MARGINAL IMPACT WESTERN ACTIONS CAN HAVE. WHILE THE SOVIET COURSE MAY NOT BE AFFECTED, SOME ADVENTURES MAY BECOME UNAFFORDABLE. THUS, THE NET EFFECT OF THE ELIMINATION OF SUBSIDIZED CREDIT MAY BE CONSIDERABLE IN RELATIVE TERMS. BOECKER SUBSEQUENTLY CLARIFIED THAT HE WAS NOT CONCERNED ABOUT THE IMPACT OF SOVIET PROPAGANDA IN WESTERN COUNTRIES BUT RATHER IN THE DEVELOPING WORLD, E.G., AFRICA, WHERE WESTERN DISCRIMINATION AGAINST THE USSR AND NOT AGAINST SOUTH AFRICA COULD BE USED AGAINST US.

26. SVART (DENMARK) STRESSED THAT THE DANISH POINT OF DEPARTURE IN CONSIDERING THE CREDITS ISSUE REMAINS THE JANUARY 11 ALLIANCE DECLARATION ON POLAND. COPENHAGEN IS SKEPTICAL ABOUT THE VALUE OF ECONOMIC MEASURES IN PARTICULAR, A POINT UNDERLYING ITS HESITANCY IN ENDORSING THE RECENT EC MEASURE ON SOVIET IMPORTS AS WELL AS THE PROPOSED EC ACTION ON DECO CONSENSUS CREDIT FOR THE USSR. THIS SAID, SVART ASKED HOW THE US-PROPOSED INFORMATION EXCHANGE SYSTEM WOULD WORK, AND IF THE US HAD ARRIVED AT A RELIABLE ASSESSMENT OF THE IMPACT

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ON THE SOVIET UNION OF MEASURES TAKEN AS A RESULT OF THE POLISH SITUATION.

27. BUCKLEY NOTED THAT THE INFORMATION BASE PROPOSED FOR THE EXCHANGE WAS SIMILAR TO DATA NORMALLY PUBLISHED IN MANY DECO COUNTRIES, ADDING THAT ITS AIM WAS TO PROVIDE AGGREGATE FIGURES WHICH WOULD CONVEY A FEEL FOR THE EXTENT OF WESTERN EXPOSURE. HE LATER PROVIDED TO NATO INTERNATIONAL STAFF, FOR CIRCULATION TO DELEGATIONS, THE US QUESTIONNAIRE FOR THE INFORMATION EXCHANGE. BUCKLEY RESPONDED TO SVART'S SECOND QUESTION

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BY AGREEING FULLY THAT THE JANUARY 11 NATO DECLARATION WAS AN IMPORTANT DOCUMENT. TOGETHER WITH EC ACTION ON IMPORT RESTRAINT AND THE EC DECISION ON OECD RECATEGORY, IT CONVEYED A CLEAR SIGNAL TO THE USSR.

28. MERILLON (FRANCE) ARGUED THAT THE UNDERLYING DIFFERENCES BETWEEN FRANCE (AND BY IMPLICATION OTHERS) AND THE US RESTED ON DIFFERENCES IN APPROACH TO THE OVER-ARCHING ISSUE. HE ARGUED THAT THE US TALKS EXCLUSIVELY ABOUT CREDITS, WHICH MERILLON CONSIDERED WAS AN IMPORTANT POINT, BUT ONLY ONE ASPECT OF THE PROBLEM. THE US APPROACH TENDED TO SIMPLIFY THE ISSUE, WHICH WAS MORE COMPLEX THAN JUST ONE OF SUBSIDIZING THE USSR. FRANCE AND OTHERS, ON THE OTHER HAND, TOOK A MORE GENERAL "GLOBAL" APPROACH. THE CHIEF FRENCH CONCERN WAS THE 'NEED FOR CREDIBILITY'. THUS, IT WAS PARTICULARLY IMPORTANT TO AVOID THREATS WHICH WE CANNOT FOLLOW THROUGH ON. MERILLON ARGUED THAT THE US AND FRANCE SHARE THE SAME STRATEGIC OBJECTIVES, AS REFLECTED IN THE UNITY OF FRENCH AND US VIEWS AT THE JANUARY HIGH-LEVEL COCOM MEETING.

29. ON THE COMMERCIAL SIDE OF THE EQUATION, MERILLON SAID THERE COULD BE NO QUESTION OF BLOCKING EAST-WEST TRADE. IT IS IMPORTANT THAT THIS TRADE CONTINUE AS LONG AS IT (1) IS MUTUALLY PROFITABLE; (2) IS NOT A CHANNEL FOR "DANGEROUS TRANSFERS" AND (3) PROVIDES A LINE OF COMMUNICATION WITH THE EAST. MERILLON CONCLUDED BY NOTING THAT THE FRENCH CONCERN WITH THE US APPROACH REVOLVES AROUND IDEAS OF "IMPOSING A PENALTY ON THE USSR." REITERATING CONCERN OVER THE TERM "SANCTION" -- WHICH, AS HE HAD OBSERVED EARLIER, HAD CONNOTATIONS WHICH TENDED TO CLASH WITH PRINCIPLE OF CREDIBILITY -- MERILLON ADDED THAT IN SEEKING TO EXACT A PENALTY ON THE USSR WE OFTEN RUN THE RISK OF PENALIZING OURSELVES MORE THAN THE SOVIETS. WHILE CLAIMING AGREEMENT WITH US OBJECTIVES, MERILLON CAUTIONED AGAINST A STRATEGY WHICH AIMED TOO HIGH.

30. GRAHAM (UK), NOTING THE TEAM HAD VISITED LONDON, SIMPLY OBSERVED THAT THE UK REGARDING THE ISSUES RAISED BY THE US AS IMPORTANT. THE UK DOES NOT, IN PRINCIPLE, FAVOR SUBSIDIZED CREDITS, BUT IF THE SYSTEM IS TO BE CHANGED THE BURDENS MUST BE COLLECTIVELY SHARED. HE EXPRESSED HOPE THAT THE MERITS OF THE NATO FORUM FOR PURSUING THE CREDIT ISSUE MIGHT BE KEPT IN MIND, SUGGESTING THAT WORK MIGHT BE UNDERTAKEN BY THE SPC UNDER NAC SUPERVISION.

31. TORNETTA (ITALY) SAID HE WOULD NOT REHASH THE SUBSTANTIVE VIEWS JUST EXPRESSED BY HIS GOVERNMENT IN ROME BUT DID WISH TO EMPHASIZE ITALY'S WILLINGNESS TO PURSUE WITH THE ALLIES FURTHER CONSULTATIONS ON THESE MATTERS.

32. DISCUSSION CLOSED WITH GARRIN, ON BEHALF OF THE COUNCIL, EXPRESSING THANKS TO THE US INTER-AGENCY MISSION FOR THEIR PRESENTATION. IT WAS AGREED THAT, IN LIGHT OF PRESS INTEREST, THE NATO SPOKESMAN WOULD GIVE A FACTUAL STATEMENT, NOTING THAT THE COUNCIL HAD MET TO HEAR A PRESENTATION ON EAST-WEST ECONOMIC RELATIONS BY US DELEGATION HEADED BY UNDER SECRETARY BUCKLEY.

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END OF MESSAGE

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EXDIS, BRUSSELS ALSO FOR USEC

E.O. 12065: ROS - 1 3/17/D2 (HAIG, ALEXANDER M., JR.)
TAGS: EFIN, EEWT

SUBJECT: INTERAGENCY MISSION ON EAST/WEST ECONOMIC
RELATIONS

1. S - ENTIRE TEXT.
2. FOR ACTION ADDRESSEES: AMBASSADORS SHOULD DELIVER
THE LETTER IN PARA 3 BELOW. ADDRESSED TO
THE FOREIGN MINISTER FROM SECRETARY HAIG. EMBASSIES
SHOULD ENSURE THAT LETTER DELIVERED TO RESPECTIVE FOREIGN
MINISTERS BEFORE MARCH 22-23 EC FOREIGN MINISTERS MEETING.

3. BEGIN TEXT.

DEAR (HANS DIETRICH/CLAUDE/PETER/EMILIO):

"PRESIDENT REAGAN AND I ASKED FOR THE SPECIAL ATTENTION
OF YOUR GOVERNMENT TO THE INTERAGENCY MISSION HEADED BY
UNDER SECRETARY JAMES L. BUCKLEY, AND COMPOSED OF SENIOR
ADMINISTRATION OFFICIALS. I THANK YOU FOR THEIR
RECEPTION IN CAPITAL. MY GOVERNMENT NOW WANTS TO WORK
WITH YOURS TO SEE THAT THE EXCHANGE OF VIEWS WHICH TOOK

PLACE SETS THE STAGE FOR EXPEDITIOUS, EFFECTIVE AND
MUTUALLY AGREED ACTION.

WHAT THE MISSION SOUGHT WAS COMMON GROUND AMONG OUR
CLOSEST EUROPEAN ALLIES ON HOW TO BEGIN CONTROLLING THE
INCREASING VOLUMES OF SUBSIDIZED OFFICIAL CREDIT AND
GUARANTEES TO THE SOVIET UNION. YOU HAVE HEARD FROM THE
MISSION OUR CONCERN THAT THE UNREGULATED AND COMPETITIVE
PROVISION OF THIS CREDIT, TOGETHER WITH QUESTIONS OF
SOVIET CREDITWORTHINESS AND OF ALLOCATION OF WESTERN
RESOURCES, REQUIRE A COMPREHENSIVE WESTERN STRATEGY. THE
NEED FOR JOINT ACTION IN SUCH AN IMPORTANT AREA OF
CONCERN GAINS URGENCY FROM EVENTS IN POLAND, AND FROM THE
GROWING PERCEPTION AMONG OUR PUBLICS THAT WESTERN
SUBSIDIES OF THE SOVIET ECONOMY ARE CONTRIBUTING UNOULY
TO SOVIET MILITARY DEVELOPMENT.

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THE POINT OF DEPARTURE RECOMMENDED BY THE BUCKLEY MISSION WAS THAT RESTRAINT SHOULD TARGET THE FLOW OF MEDIUM-AND LONG-TERM SUBSIDIZED OFFICIAL CREDITS, AND GUARANTEES. BOTH CREDITS AND GUARANTEES HAVE IN THE LAST YEAR WORKED INCREASINGLY AGAINST THE SIGNALS OF OUR FREE MARKETS. THERE IS APPARENT CONSENSUS THAT ACTION IS-NECESSARY, AND THAT THE COMPETITIVE PROVISION OF FINANCING TO-THE SOVIETS, AT BELOW COST, IS UNDESIRABLE.

WHILE A LINK BETWEEN TRADE AND OFFICIAL CREDIT EXISTS, THE US IS NOT SEEKING ECONOMIC WARFARE WITH THE-SOVIET UNION. HOWEVER, "BUSINESS AS USUAL" IS ALSO INAPPROPRIATE, AND, IN THE CASE OF CREDIT, DAMAGING TO OUR NATIONS' OWN BEST ECONOMIC INTEREST.

WE HAVE BEGUN TO ESTABLISH ACCORD ON PREMISES. THERE IS APPARENT AGREEMENT THAT WE NEED MORE TRANSPARENCY IN-THE EXTENSION TO THE SOVIET UNION OF OFFICIAL CREDIT AND GUARANTEES. OUR GOVERNMENTS UNDERSTAND THAT-THE SOVIET UNION IS "DIFFERENT" IN TRADE AND STRATEGIC TERMS. WE KNOW THAT THE FLOW OF CREDIT TO THE SOVIET UNION HAS RECEIVED TOO LITTLE COLLECTIVE ATTENTION ON OUR PART. I THINK WE ALSO CAN AGREE THAT, FOR EFFECTIVENESS AND FOR ALLIED UNITY, OUR ACTIONS SHOULD BE JOINTLY UNDERTAKEN IN THE SPIRIT OF BURDEN-SHARING AND EQUITY.

YOU KNOW THAT MY COUNTRY HAS BEEN MAKING SACRIFICES IN THE AREA OF CREDIT AND GUARANTEES SINCE 1974, AND-THAT WE MORE RECENTLY HAVE FORGONE HUNDREDS OF MILLIONS OF DOLLARS OF ADDITIONAL TRADE WITH THE SOVIET UNION AS PART OF OUR SANCTIONS IN RESPONSE TO THE SOVIET-INSPIRED

REPRESSION IN POLAND. MOREOVER, IN RESPONSE TO STRONG AMERICAN OPINION, PRESIDENT REAGAN MUST FACE ADDITIONAL DECISIONS INVOLVING THE APPLICABILITY AND POSSIBLE EXPANSION OF OUR DECEMBER 30 ECONOMIC MEASURES AGAINST THE USSR IF OUR COLLECTIVE ACTION APPEARS INSUFFICIENT TO THE CHALLENGES WE FACE TOGETHER.

YOU HAVE LEARNED HOW DEEPLY WE FEEL ABOUT THE NEED TO ACT JOINTLY AND FORCEFULLY TO BRING THE UNRESTRAINED FLOW OF SUBSIDIZED CREDIT UNDER CONTROL. IT WAS NOT OUR EXPECTATION THAT, DURING THE INSERT CAPITAL, MEETINGS WITH THE MISSION DISPATCHED BY PRESIDENT REAGAN, ALLIED POLICIES COULD BE FORGED INTO A FINISHED PRODUCT. THE NEXT STEP, I BELIEVE, IS TO EXCHANGE NATIONAL VIEWS ON WHAT SHOULD BE DONE TO REACH DECISIONS ON THIS CRUCIAL PROBLEM. I EARNESTLY SOLICIT YOUR PROPOSALS, TOGETHER WITH YOUR CONSIDERED ADVICE ON HOW BEST MULTILATERALLY TO ORGANIZE OURSELVES TO THE TASK. YOU WILL BE RECEIVING THE FULLEST ATTENTION OF MY GOVERNMENT ON THIS MATTER. SINCERELY, AL. END TEXT.

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END OF MESSAGE

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 RUEHLO/AMEMBASSY LONDON PRIORITY 0801
 RUFHFR/AMEMBASSY PARIS PRIORITY 2218
 RUEHRO/AMEMBASSY ROME PRIORITY 7900
 RUFHNA/USMISSION USNATO PRIORITY 7275
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 S E C R E T BONN 06207

EXDIS

E.O. 12065: GDS 03-20-88 (WOESSNER, WILLIAM M.) OR-M
 TAGS: EFIN, EEWT
 SUBJECT: FOLLOW-UP TO INTERAGENCY MISSION: DELIVERY OF
 - MESSAGE TO FRG

REF: STATE 73623

1. SECRET - ENTIRE TEXT.

2. ON MARCH 20, CHARGE MADE POINTS REFTEL TO PER FISCHER,
 FOREIGN OFFICE DIRECTOR GENERAL FOR ECONOMIC AFFAIRS.
 (STATE SECRETARY LAUTENSCHLAGER WAS NOT AVAILABLE DUE TO
 ILLNESS.) CHARGE ALSO LEFT TEXT OF POINTS AS A "NON-
 PAPER".

3. PER FISCHER QUESTIONED THE STATEMENT (PARA 4) THAT
 THE U.S. POSITION ON SANCTIONS UNDERCUTTING WAS NOT
 CLEARLY APPRECIATED IN BONN AND THAT U.S. CONTROLS MIGHT
 BE EXPANDED. PER FISCHER SAID HE WAS "PERSONALLY
 ASTONISHED" AT THIS POINT AND THOUGHT IT "WOULD BE VERY
 IRRITATING" TO THE FRG. HE NOTED THAT THE FRG HAD
 REPEATEDLY RAISED THE ISSUE OF SANCTITY OF CONTRACTS
 WITH THE UNITED STATES AT THE MINISTERIAL LEVEL AND
 BELIEVED THAT WHAT WAS INVOLVED WAS THE "RECOGNITION OF
 A PRINCIPLE WHICH MUST BE HONORED." HE SAID HE BELIEVED
 THIS POINT HAD BEEN MADE CLEARLY AND DIRECTLY TO THE
 BUCKLEY MISSION, AND WONDERED IF THIS PORTION OF THE
 DEMARCHE WAS TO BE TAKEN AS A "THREAT."

4. AFTER REVIEWING THE OTHER POINTS, PER FISCHER
 COMMENTED THAT HE UNDERSTOOD THE CONSULTATION PROCESS
TO REMAIN AS THE BUCKLEY MISSION HAD INDICATED: NAMELY,
 AN INITIAL ROUND OF BILATERAL CONSULTATIONS, FURTHER
 BILATERAL DISCUSSIONS, AND THEN MULTILATERAL CONSIDERATION
 OF THE ISSUES. PER FISCHER SAID HE BELIEVED THE
 SECRETARY'S LETTER DELIVERED MARCH 19 AND THIS DEMARCHE
 INDICATED THAT WE WERE NOW IN THE "FURTHER BILATERAL
 CONSULTATIONS" PHASE. HE STRESSED THE IMPORTANCE THE
FRG ATTACHES TO ARRIVING AT AN ALLIED POSITION WHICH

*Response to
 19 March
 demarch in Bonn*

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ALL CAN TAKE TO DEMONSTRATE ALLIED UNITY." PER FISCHER NOTED THAT THE TOPICS RAISED BY THE BUCKLEY MISSION HAD COME UP AT THE FRG-UK CONSULTATIONS AT CHECQUERS, FROM WHICH HE JUST RETURNED. HE ALSO SAID THAT WHILE THE SUBJECT WAS NOT ON THE FORMAL AGENDA FOR THE EC, MEETINGS ON MARCH 22-23, HE EXPECTED THE COMMISSION TO REPORT ON ITS DISCUSSIONS WITH THE MISSION. (HE FURTHER SPECULATED THAT THIS MATTER WOULD ALSO BE DISCUSSED "IN A NON-TECHNICAL WAY" BY THE HEADS OF GOVERNMENT AT THE EUROPEAN COUNCIL MEETING THE FOLLOWING WEEK.)

5. IN CLOSING, PER FISCHER NOTED THAT THE FRG WAS ALREADY ADDRESSING THE QUESTIONS RAISED BY THE BUCKLEY MISSION AND THAT AN INTER-MINISTERIAL COMMITTEE WAS ALREADY AT WORK ON THE QUESTIONNAIRE LEFT BY THE TEAM. HE SAID THE FRG WAS AWARE OF THE POLITICAL URGENCY THE UNITED STATES ATTACHED TO THE MATTER, BUT ON THE OTHER HAND, THE SUBJECT MATTER WAS HIGHLY TECHNICAL AND REQUIRED CAREFUL PREPARATION. HE NOTED THAT THERE ARE SEVERAL RESPONSIBLE MINISTRIES, AND ALSO THAT NOT ALL OF THE DATA REQUESTED WAS IN THE POSSESSION OF THE GOVERNMENT. CONCLUDING, PER FISCHER PROMISED TO BRING THE CHARGE'S CALL TO THE IMMEDIATE ATTENTION OF THE FOREIGN MINISTER. WOESSNER
END OF MESSAGE

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EXOIS, BRUSSELS ALSO FOR USEEC AND USOECD

E.O. 12065: RDS-1 3/22/92 (BUCKLEY, JAMES L.)
 TAGS: EFIN EEWI UR
 SUBJECT: INTER-AGENCY MISSION ON EAST-WEST ECONOMIC
 - RELATIONS: DISCUSSION OF SIBERIAN GAS
 - PIPELINE

1. ENTIRE TEXT SECRET.

2. DISCUSSION OF SIBERIAN GAS PIPELINE ISSUES DURING
 MISSION'S VISIT REVEALED, AS EXPECTED, THAT GERMANS AND
 FRENCH REMAIN COMMITTED TO PROJECT AND THAT ITALIANS
 WILL PROBABLY END THEIR "PAUSE" WITHIN NEXT FEW WEEKS.
 HOWEVER, SEVERAL SOFT SPOTS IN EUROPEAN SUPPORT FOR
 PIPELINE PROJECT DID EMERGE:

-- THE ITALIANS INDICATED A WILLINGNESS TO CONSIDER
TANGIBLE ALTERNATIVES;

-- FRENCH MAY WELL BE CONSIDERING TAKING 6 BCM RATHER
THAN 8 BCM;

-- WE HAVE REPORT THAT RUHRGAS CAN EXERCISE ON APRIL 1
 AND OCTOBER 1 OPTIONS TO REDUCE ITS TAKE BY 10 PERCENT
 ON EACH OCCASION (SUBSEQUENT REPORT INDICATES THAT
 RUHRGAS MANAGEMENT HAS DECIDED TO EXERCISE THESE

OPTIONS); AND

-- THE UK HAS INDICATED A POSITIVE ATTITUDE TOWARD
FUTURE GAS EXPORTS TO THE CONTINENT.

OUR INTEREST REMAINS TO MINIMIZE WESTERN EUROPEAN
 PURCHASES OF AND DEPENDENCE ON SOVIET SUPPLIES. IN
 ADDITION, THE LOWER THE LEVEL OF EUROPEAN PURCHASES
 FROM THE SOVIET UNION, THE GREATER THE POSSIBILITY THAT
 A SUFFICIENTLY LARGE MARKET WILL REMAIN UNSATISFIED IN
 THE EARLY 1990'S TO JUSTIFY THE DEVELOPMENT OF THE UK

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F. FOR THE HAGUE. WE WOULD WELCOME STATUS REPORT ON
DUTCH DISCUSSIONS WITH THE SOVIETS REGARDING POSSIBLE
GAS PURCHASE. NEW DEVELOPMENTS IN UK AND NORWAY COULD
BE USED AS ARGUMENTS FOR HOLDING OFF SOVIET GAS
PURCHASES.

G. FOR OSLO. TALKS IN EUROPE MADE CLEAR THAT
NORwegians HAVE GOTTEN THE MESSAGE ACROSS TO OTHER
EUROPEANS THAT NORWAY IS MORE INTERESTED THAN BEFORE IN
DEVELOPING AND EXPORTING ITS SUBSTANTIAL GAS RESERVES.
NEXT STEP IN THE PROCESS IS PROBABLY UP TO THE
EUROPEANS, ALTHOUGH US REMAINS PREPARED TO ASSIST IN
ANYWAY IT CAN TO SPEED DEVELOPMENT. EMBASSY'S COMMENTS
WOULD BE WELCOMED. HAIG
END OF MESSAGE

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6

THE DIRECTOR OF
CENTRAL INTELLIGENCE

National Intelligence Council

24 March 1982

NOTE FOR: DCI
DDCI

FROM :
Acting NIO/USSR-EE

SUBJECT : NSC Meeting, 25 March 1982

Subsequent to writing the basic memo to you, I learned that you had breakfast with Messrs. Iklé and Olmer this morning. Consequently, you will have a better feel for their viewpoints than I have. However, I am still forwarding to you the memo with attachments for general background purposes.

We have just received the inputs from various offices for the preparation of your talking points. I will have those talking points for you tomorrow morning. I am including the office inputs in this package so that you can scan this detailed information this evening if you so desire.

We may receive additional inputs from State tomorrow--in which case I will bring it to your attention before the meeting.

Attachments:
DDI #2428-82 w/atts



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